HOUSING MARKET OUTLOOK

Metro Victoria

Canada Mortgage and Housing Corporation

SPRING 2005

2006 at a Glance

- *Victoria's housing markets still lively*
- *Resale market sales level off, prices continue rising*
- *New homebuilding strong - both singles and multis*
- *Rental market vacancy rate edging up*
- *New home market prices moving higher*
- *Most new lots in West Shore markets, prices up*

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RESALE MARKET

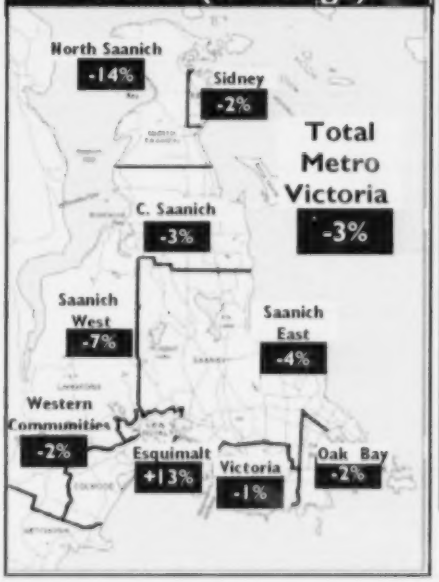
Prices reach new highs

MLS®[1] average prices are expected to continue to trend up next year, on the heels of strong 2004-05 increases. In 2006, prices are forecast to average $432,000 for houses, $337,000 for townhouses and $242,000 for condo apartments.

The number of **2006 Victoria home sales will slip from the frenzied pace of 2004-05, but will remain at strong levels**. A rise in condo apartment transactions is keeping this year's total sales on par with 2004.

continued on page 2...

House Sales by Sub-market, 2003-04 (% change)



[1]Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

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Resale Market ...continued from page 1

Single family home sales are forecast to remain below 4,300 in 2005-06, as slightly fewer buyers are drawn to this market due to high house prices. Condo **apartment and townhouse sales reflect strong demand** for affordable homes, coming in at a forecast 2,150 apartment and 705 townhouse transactions in 2005.

Metro Victoria first quarter 2005 **single family home sales are 7% behind** last year's levels. **Victoria City**, **Saanich West**, **Langford** and **Metchosin** are bucking the trend to fewer house sales, as first time buyers drive sales higher in these less expensive markets. In 2004, **Esquimalt** was the only market to see an uptrend in sales, also driven by buyer attention to affordability (see map on page 1 for 2004 details).

Next year's house **sales are forecast to hold steady** after this year's dip. Sales in several **Western Communities** markets are expected to outperform other Capital Region markets as buyers are attracted to the West Shore's growing number of recreational, retail, medical, educational and cultural amenities, as well as its lower house prices.

Strong demand will push average single family house prices ahead 8.5% in 2005 and a further 3.1% in 2006. **Rising buyer activity** in all market segments has already driven prices a total of 50% higher over the past three years.

Prices are continuing the uptrend first noted in early 2001 when demand for homes began to escalate. In third quarter 2004 and again in first quarter 2005 slightly more listings came on to the market, easing the undersupply and resulting in **less upward pressure on prices**.

At March 2005, single family house listings were up just 3% from March 2004's level, resulting in a minor easing to strong upward price pressure. Low interest rates and strong employment growth are keeping market demand buoyant and the market continues to favour sellers.

March 2005's sales-to-active listings ratio is spiking, at 71%, not far from last March's exceptional 78%. Year-to-date, the average sale price is up 17%. These figures indicate the single family **house market currently favours sellers**, and is not forecast to return to balanced conditions until mid 2006.

MLS® House Sales by Market

1st Quarter 2005, Metro Victoria

	Average House Price	Average Days to Sell	Average Size Sq. Ft.
Victoria City	$377,622	33	1,438
Oak Bay	$668,225	39	2,234
Esquimalt	$328,090	34	1,820
Saanich East	$431,583	36	2,124
Saanich West	$361,482	34	1,817
Central Saanich	$453,594	33	2,611
North Saanich	$485,000	33	2,352
Sidney	$336,562	15	2,081
Western Communities	$373,664	48	2,076

Source: Victoria Real Estate Board, CMHC Victoria

Esquimalt Houses Most Affordable In Region

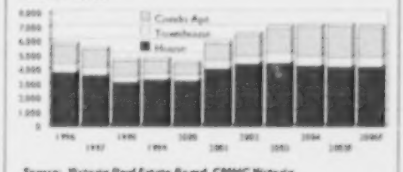
Esquimalt was again the **least expensive house market** in Metro Victoria during first quarter 2005, with an average house price of $328,490.

Sidney was the next most affordable market, at $336,562. **Saanich West**, the **Western Communities**, and **Victoria City** also posted average prices less than $400,000.

Oak Bay and **North Saanich** continued to lead the **trade-up market**, with average prices of $668,225 and $485,000. **Saanich East** and **Central Saanich** both saw averages rise above $430,000.

MLS® SALES

METRO VICTORIA



Source: Victoria Real Estate Board, CMHC Victoria

Condo Markets Still Hot

Metro Victoria's **townhouse and apartment condominium sales increases** will outshine single detached sales performance in 2005-6. These markets also favour sellers, and prices are rising quickly.

Average townhouse **prices are forecast to approach $340,000** next year. This market has favoured sellers since mid 2002. During first quarter 2005, townhouse sales slipped 4%, active listings doubled, and average prices climbed 8%. A growing number of listings and moderate demand is **easing strong upward pressure on prices**.

Apartment condo prices jumped 44% in the last two years, and will climb to $242,000 in 2006, due in part to large volumes of new suite presales. The following market indicators confirmed a **sellers' market for apartment condos** during first quarter 2005: sales jumped 57%, active listings rose 38%, and average prices rose 11%. ❖

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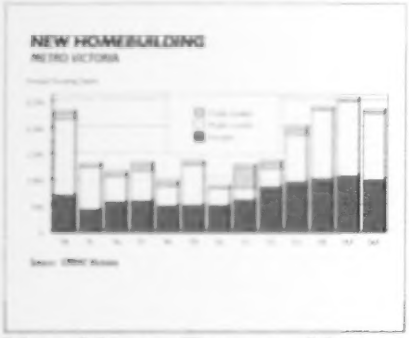
NEW HOME MARKET

Homebuilding Peaking

New homebuilding **will exceed 2,500 new home starts in 2005 and is expected to edge down slightly in 2006. Single detached houses and apartment condos will continue to lead Victoria's new home markets,** as they have since 2001 when rental construction surged ahead briefly.

Move-up, move-down and second home purchasers will remain major players in the new home market through 2006 as equity growth in their current homes improves with the strong resale market. **Investors account for the second major buyer segment,** attracted by rising real estate prices and strong rental demand. **First-time buyers will be less active** than in 2003-04, due to rising interest rates and higher home prices.

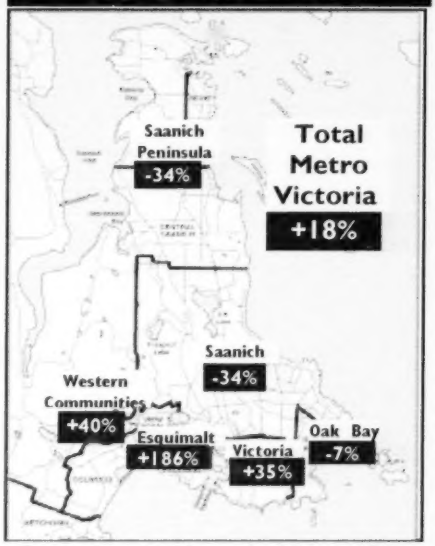
CMHC forecasts **2,550 new home starts for Metro Victoria during 2006 and 2,325 in 2005.** The Capital Region's rising levels of construction are in line with B.C. homebuilding growth.



New House Demand Up

Single detached house starts are expected to **exceed 1,000 units annually in 2005-06** as strong buyer demand continues. New housebuilding activity has doubled from levels recorded in 1998-2000.

New Housing Starts, 2003-04 (% change)



Single detached housebuilding is 12% ahead of last year's pace in first quarter 2005. Demand for new houses continues to be driven by **strong resale market sales, high consumer confidence, solid employment growth, rising prices** and **low interest rates.**

The **new house market will remain balanced** as supply and demand stay in sync through 2006. New home **inventories will increase slightly** as the speculative house market slowly expands. However, most new houses are presold before finishing, which keeps the market in balance. **High lot costs, growing development fees** and **escalating insurance and building supply costs** continue to challenge homebuilders.

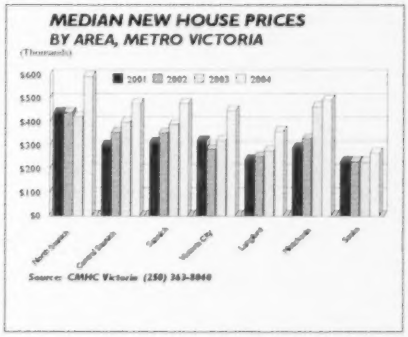
Western Communities markets will approach a **two-thirds share of Metro Victoria's new houses** this year, after taking 59% of the 2004 total (up from 54% in 2003). **Saanich** and **Langford** are the strongest single municipalities, with close to one-quarter each of new Metro Victoria housebuilding. Major subdivisions are underway in **Sooke, View Royal, Langford, Colwood,** and **Saanich** - several with multi-year buildouts.

New House Prices Climb

Strong demand and higher building costs are **driving new house prices up.** Median new house prices are forecast to rise 7.5% in 2005 and **a further 4% in 2006.**

New homebuyers will have **a broad selection of new houses through 2006.** Price-sensitive homebuyers will find new houses on affordable suburban lots: the market for these modest homes is **helping to keep median prices in check** despite rapidly rising construction costs.

Some subdivisions in **View Royal, Langford, Colwood** and **Sooke** are magnets for affordable new house building. Higher-end new houses tend to be situated in **Saanich, North Saanich, Oak Bay** and on large properties in the **Western Communities.**



Prices for new 1½ storey houses will jump again in 2005, with a forecast median of $440,000, up from $400,000 in 2004 and $339,000 in 2003. **New two storey houses,** which account for two-thirds of the 2005 market, **will hit a median of $435,000.** One storey prices are expected to **rebound this year:** half will be priced under $350,000, compared with $280,000 in 2004 and $309,000 in 2003.

continued on page 4...

New Home Market... continued from page 3

New Townhouse Market Growing in 2005-06

New townhouse starts are expected to rise through 2006, although construction has cooled from 2003's scorching pace. Over the next two years, starts are forecast at 150-165 annually; in 2004, 122 new townhouses broke ground compared with 206 the previous year.

During the first quarter of 2005, **35 townhouses got underway,** more than double the 16 started during the same period in 2004. **Inventories of newly completed townhouses are holding steady**, and demand continues strong.

New townhouse **development continues to be held back** by **high land prices** due to a **shortage of suitably zoned sites**. Market share of **family-oriented townhouses,** containing three or more bedrooms, is escalating. **The proportion of three bedroom units** climbed to 69% in 2004 from 56% in 2003, 47% in 2002 and 42% in 2001.

In 2005-06, median **prices are forecast to rise 5% annually, following 2004's 30% price jump.** This means next year's **three bedroom townhouse** median price is forecast to reach $368,000.

New Apartment Condo Market Intense

New condo apartment starts are expected to peak during 2005 although **construction levels will remain strong through 2007**. In contrast, **new rental construction will remain weak through 2006** although some investor-owned condos will help address strong rental market demand.

Metro Victoria inventories are edging up this spring, with 44 new apartment condos completed and for sale at March 2005. **The market is now considered oversupplied** due to the large number of units (1,071 at March 2005) under construction. However, about 75% of these units are pre-sold, reflecting strong market demand.

During the first quarter of 2005, **243 apartment condos completed and 214 sold**. Strong demand for **luxury** condos, **trendy** downtown units and **modest suburban** suites is driving sales of new units as well as presales.

Current **hot price points are $180-199,999 for one bedroom suites** and **$220-239,999 for two bedroom units**. This contrasts with 2003's most popular price range for both one and two bedroom suites of $140-$180,000.

Median prices have rebounded from 2003's dip, and **are forecast to trend up through 2006**. A growing proportion of **concrete high-rises with waterview/waterfront condos** in downtown Victoria City is the main factor driving higher prices, although **rising construction costs** are also playing a significant role.

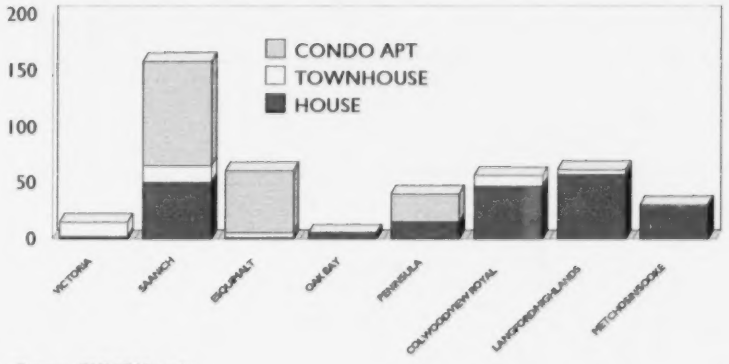
An equitable proportion of luxury vs. affordable or mid-range suites will keep rising median prices in check. Median new **apartment condo prices are expected to remain just below $300,000** through 2006.

Demand for luxury suites will remain strong while demand for mid-range and affordable units in convenient locations will expand in 2005-06, resulting in a **diverse selection of prices, styles and locations**.

Many 2005-06 condos will be built on **Victoria City redevelopment sites**, while others will get underway in **Sidney**, **Central Saanich, Esquimalt, Saanich** and the **Western Communities. Langford** and **Colwood** are expected to dominate West Shore markets in condo building. ❖

NEW HOUSING STARTS BY TYPE BY AREA, METRO VICTORIA

January-March 2005



Source: CMHC Victoria

Saanich, Esquimalt, West Shore out in front during 1st Q 2005.

Land Prices, Sales Increase

Single family lot **prices are slightly above last year's levels** in Metro Victoria, and more lots are selling. Lot **sales are strongest in the Western Communities**, but are holding steady at low levels in other Metro Victoria areas due to limited supply.

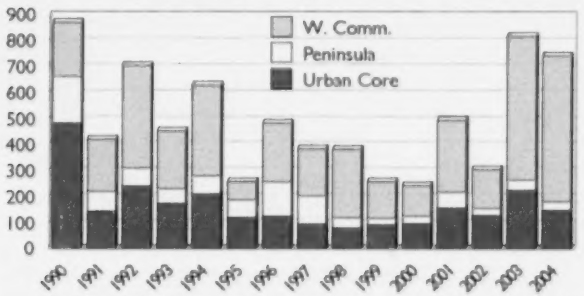
The median price for serviced lots in the six months ended March 2005 included **$255,000** in **Saanich**, **$267,500 in North Saanich, $227,500 in Central Saanich, $170,000** in **Langford, $235,000 in Colwood** and **$200,000** in **Metchosin**.

Sales of Metro Victoria **multiple land sites** remain slow, as few **new townhouse and apartment projects** get underway on land which has recently sold. Land prices per unit in 2005 range from $42-65,000 for apartments to $65-99,000 for townhouses.

Single family dwelling **land supply jumped in 2003** (see chart below) with additional lots created in the Capital Region; more new lots are expected to come on stream through 2006. The largest growth of new single detached lots is located in the **Western Communities**; other areas saw fewer lots created in 2004.

The ongoing **land shortage**, combined with rising construction costs will **drive higher house prices through 2006**. Housebuilding is growing in 2005-06, and the region-wide lot supply constraint **is pushing lot prices higher**. New subdivisions in **Sooke, Langford, Colwood** and **View Royal** will improve lot supply through 2007. ❖

HOUSE LOT CREATION BY AREA, METRO VICTORIA



Graph: CMHC Victoria Data: CRD Development Review

B.C. RENTAL MARKET TRENDS

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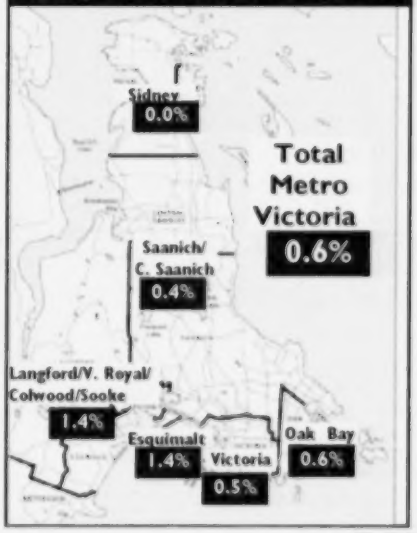
Vacancy rate to rise

Rental apartment vacancies are forecast to increase to 2.1% in 2006 as newly completed condos are rented out by investors, taking the edge off strong rental demand. This year, few vacancies are expected with vacancy rates edging up to 1.2% from 0.6% reported in 2004. Average rent **increases will exceed 3% annually,** overtaking the inflation rate. Limited choice of **rental apartments** will be available in most Metro Victoria submarkets through 2006. Low vacancies and rising rents will also apply to the **rental townhouse market** in 2005-06.

Only a few new multi-family projects in will be built for rental in 2005-06. **Ongoing barriers to rental development** include high land costs, municipal DCC's and competitive average rents. Many investors find these impediments render new rental development **unviable**, thus will pursue other opportunities such as **mixed-use, niche market, condo, or commercial projects**.

Victoria Rental Market, 2004
Average Apartment Vacancy Rates



ECONOMIC OVERVIEW

Economic Growth on Rise

Metro Victoria economic growth will **track strong BC growth patterns over the next 18 months**, with real GDP exceeding 3% in 2005-06.

For 2005-06, CMHC forecasts increases in provincial **economic growth, employment** and **net migration**. BC interprovincial migration recorded a net inflow of 7,080 last year, expected to rise to 9,000 in 2005 and 9,900 in 2006. **International migration** continues at a steady pace (28-33,500 annually). Migration improvements are a catalyst to housing market expansion throughout BC.

Metro Victoria population is forecast to grow 1.3% next year, hitting 327,500. In 2006, **net migration to Victoria is forecast to rise** in concert with B.C. trends, improving to 2,675 from 2,500 in 2005.

Victoria employment growth of 1.9% is forecast for 2005, followed by a further 1.5% in 2006. Employment growth is strongest in **construction, retail trade, finance, insurance** and **real estate,** while slow recovery will occur in **manufacturing, health care,** as well as **defense and primary industries**. Slight negative growth is expected in **public administration.**

Metro Victoria's **unemployment rate** should remain below 6% over the next 18 months. Last year, unemployment posted its best performance in over two decades, with a rate of 5.3%. BC unemployment will track close to 6.6% in 2005-06.

At March 2005, the **value of major capital projects** proposed, planned or under construction in Metro Victoria totalled **$2.5 billion**, up from $1.8 billion last summer. Major projects **scheduled to get underway in** 2005-06 include **Bambu, Shutters, Castana, Tuscany Village, Dockside Green, Sheraton Hotel in Langford** and **Belleville Street Terminal redevelopment.**

Developments underway with **multi-year buildouts** include **Victoria International Airport expansion, UVic Expansion, Selkirk Waterway, Bear Mountain Golf Resort, Silver Spray, the Railyards, CFB Esquimalt Improvements, Sun River Estates, Cordova Bay Road** residential and industrial complex and the **Royal Bay Project**.

Growth in **education, high technology, tourism** and **film production** will boost economic expansion through 2006. Victoria will see its third university begin classes this September.

Tourism is expected to improve through 2006. A **10% increase in cruise ship passenger traffic** is expected this year, with 140 ships carrying 288,000 visitors scheduled to arrive at Ogden Point. Spring 2005 ferry and airport traffic statistics show **increases from last year's strong performance**.

Record hotel revenues were posted in 2004 on the heels of three years of lacklustre performance. For 2005-06, Tourism Victoria expects **moderate growth in overall tourism revenue,** boosted by events such as this June's Tall Ships Festival.

Mortgage Rates Trend Up

The monetary tightening cycle is expected to continue in the U.S. and to a lesser extent in Canada in 2005-06.

In Canada, mortgage rates are expected to remain low in 2005 and 2006, rising by 25-75 basis points annually this year and next. One and five-year mortgage rates are forecast to be in the 4.75-5.50 and 6.00-6.75 per cent range respectively in 2005.

Lenders will continue to offer **mortgage rate discounts** as a competitive practice over the forecast horizon. ❖

Ownership Costs Rising

Mortgage rates will edge up and home prices will rise, meaning higher **qualifying income** is needed to purchase a home. In 2006, qualifying income required for purchase of average-priced houses **will hit a new high** of $111,087, from $103,324 in 2005.

Metro Victoria homebuying qualifying income calculations are based on actual interest rates, MLS® average house prices to 2004 and CMHC forecasts for 2005-06 (see page 8 for details). ❖

2004 Canadian Housing Observer Available Now on CMHC's website

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RENOVATIONS CLIMBING

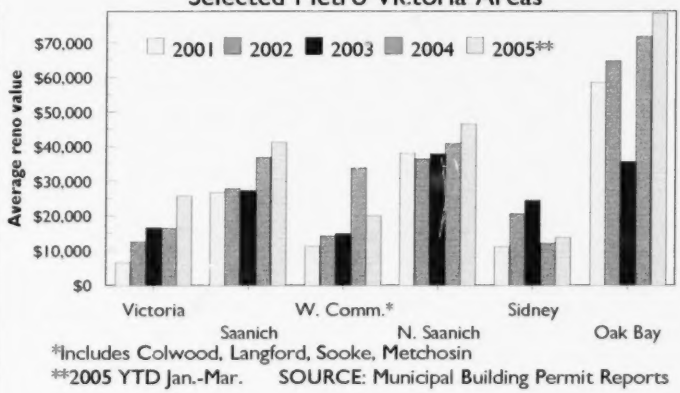
Metro Victoria renovations will continue to gain strength both in dollar value and number of renovations undertaken, during 2005-06.

Two main factors are behind the strength in renovations: strong activity in 2002-05 resale markets, and the current mainstream popularity of homeowner renovations. Many buyers choose homes based on location, frequently choosing to **purchase and make improvements** to existing housing instead of buying new homes. High **development and lot costs** and an **aging housing stock** are pushing this decade's renovations well ahead of 'evels achieved in the 1990s.

During 2004, the **number of building permits issued for residential renovations** in **Metro Victoria edged up 2.5% from** 2003 levels. Strongest permit volume growth was in the **Western Communities** markets during both 2004 (up 17%) and first quarter 2005. This year, renovation hot spots are in **Sidney, North Saanich, Oak Bay, Langford, Colwood and Esquimalt**, each with permit tally increases topping 20%.

First quarter 2005 Metro Victoria average renovation values **jumped 30% from** 2004 levels. **Oak Bay** led area markets, with average residential renovation permit values of $78,500. **North Saanich** was close behind, at $46,625. Average permit values in **other area markets ranged from $13,260 through $41,273**.

Higher costs for materials and labour, as well as a trend to larger projects, is reflected in rising renovation spending. **Exterior projects** such as decks and additions are most popular with area homeowners, followed by **secondary suites, home offices**, and **media rooms**, as well as more traditional **kitchen and bathroom renos**. ❖



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CMHC FORECAST SUMMARY

Victoria Metropolitan Area

April 2005

RESALE MARKET	2003	2004	2005F	2006F	Chg
MLS® Listings	9,063	10,329	10,100	9,500	-5.9%
MLS® Sales					
Single-family	4,477	4,285	4,200	4,220	0.5%
Townhouse	744	714	705	725	2.8%
Condo Apartment	1,712	2,018	2,150	1,990	-7.4%
TOTAL	*6,933*	*7,017*	*7,055*	*6,935*	*-1.7%*
MLS® Price					
Single-family	$328,005	$386,045	$419,000	$432,000	3.1%
Townhouse	$246,500	$299,275	$325,000	$337,000	3.7%
Condo Apartment	$183,493	$216,661	$229,000	$242,000	5.7%

NEW HOME MARKET					
Starts					
Total	2,008	2,363	2,550	2,325	-8.8%
Single-family	969	1038	1090	1020	-6.4%
Semi	91	141	125	115	-8.0%
Townhouse	206	122	165	150	-9.1%
Condo Apartment	600	1058	1125	990	-12.0%
Rental	142	4	45	50	11.1%
Complete & unoccupied (monthly average)					
Total	106	106	120	157	30.8%
Single-family & Semi	62	62	65	75	15.4%
Townhouse	21	21	20	22	10.0%
Condo Apartment	23	23	35	60	71.4%
Median New Home Price					
Single-family	$349,900	$349,900	$429,000	$445,000	3.7%
3 Bed. Townhouse	$258,450	$258,450	$350,000	$368,000	5.1%
2 Bed. Condo Apt	$267,500	$267,500	$289,000	$295,000	2.1%

RENTAL MARKET				
Vacancy Rate (Oct.)	1.1%	0.6%	1.2%	2.1%
% Increase in apartment rents	2.5%	1.7%	3.0%	3.5%

ECONOMIC OVERVIEW				
Mortgage Rate (3 yr.)	6.43%	5.65%	5.87%	6.37%
Employment Growth	2.0%	1.6%	1.9%	1.5%
Net Migration	2,080	2,200	2,500	2,675

F = CMHC Forecast

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